

IN A DOWNTURN, SEMICONDUCTOR INDUSTRY RELIES ON R&D

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JUNE 6, 2001 -- The carnage of the Semiconductor and High-Tech industry stocks on Wall Street is already old news. The industry is moving ahead and betting on new products. Intel Corporation, for example, reconfirmed its \$4.2B commitment to Research and Development (R&D) in 2001, despite hesitant views of the next two quarters. At the current run rate, this equates to 16% of expected revenue. In contrast, in 1999, a high-growth year for the industry, Intel invested 12% in R&D.

The new design activity is also evident from the fact that when the semiconductor companies are reducing their estimates and absorbing unprecedented losses for the past few quarters in a row, Engineering Design Automation (EDA) vendors, such as Synopsys, Avant!, Mentor Graphics, and Cadence Design Systems, are all projecting earnings growth in 2001. For example, in 2001, Synopsys's earnings are expected to grow 37%, Avant!'s earnings will be 17% higher, and Mentor Graphics is expected to deliver 26% earnings growth. Through 2000, when the High-Tech stocks were taking a major beating, these EDA stocks were going up.

All this design activity means a good opportunity for PLM vendors like Agile Software and PTC, and new entrants like i2 Technologies and SAP. But a lot of these applications service downstream high-tech functionality better than semiconductor-specific functionality. More niche vendors, like Syntricity and ChipData, are making their mark targeting specific vendors.